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DDA Memo, 4 Apr 77

CIVIL AVIATION Auth: DDA REG. 77/1763

Date: 1 Mar 78 By: 028Internationalization of Civil Air Transport

1. Both the UK and France intend to introduce a discussion on joint regional aviation operations during the forthcoming Second Assembly of the International Civil Aviation Organization (ICAO) at Geneva. Such a European pooling arrangement (as distinguished from internationalization of air operations under a single internationally-owned operating company) would call for a consolidation of the services and facilities of existing airlines for the purpose of realizing economies in operation. The British and French contend that a European pool is consistent with the objective of economic cooperation among the European Recovery Program countries. Each European airline would probably retain its corporate and national identity and operate with its own equipment and personnel. The airlines would carry the insignia of the international organization to which they were affiliated, and would be controlled by this organization in such matters as safety, routes, capacity, frequency, and rates.

The Scandinavian countries have already consolidated their commercial air enterprises operating internationally, and carriers of Denmark, Norway and Sweden now operate abroad under the insignia of Scandinavian Airline System (SAS). Whether the Scandinavian group would prefer to merge with a general Western European aviation pool or to remain aloof as a separate regional bloc is not yet clear. On the other hand, it appears likely that the Dutch and Belgians would agree to cooperate with other countries in any plan for a regional pooling of European carriers for operations within Europe, but that they would oppose an extension of pooled operations to routes outside Europe because of the already profitable overseas operations of their airlines.

Should a regional bloc of aviation interests extend its joint operations to world trunk routes outside the region, US long-range air carriers would be adversely affected and would suffer a reduction in their present lead in world-wide air transport operations. Complete internationalization of air traffic, which now appears unlikely, might, in fact, adversely affect US strategic interests. The formation of an international operating organization could threaten the continuation of direct negotiations by which the US now obtains air agreements with other countries for rights at foreign civil air bases.

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2. A further effort to restrict Czechoslovak Airlines operations in the Near East (See IG Weekly Summary No. 9, 28 April) is indicated by the recent British refusal to grant Czechoslovakia landing rights at various British-controlled airfields in this region. Czechoslovakia probably will now demand such privileges from the British on the ground that both countries are signatories to the "two freedoms agreement." To meet the requirements of scheduled international air services, each nation ratifying the Chicago Convention agreed to grant other contracting States the privilege to fly across its territory without landing and the privilege to land for non-traffic purposes. The UK, however, intends to counter any such Czechoslovak demand with the argument that the "two freedoms agreement" does not apply because their Near East airfields are operated by the R.A.F., and thus have a military status.

SURFACE TRANSPORTATION

German Initiative in Expanding Merchant Fleet

3. Hamburg-Amerika and Norddeutscher Lloyd, the major ocean-going German lines, have proposed that 75 Liberty ships be turned over to them by US authorities in Bizonia for bareboat charter operation. Under the terms of the charter, title to the vessels would remain in the US and the German companies would be responsible for crews and all other aspects of operation. Operating costs would be met as far as possible in reichmarks.

To counter opposition from US shipping interests, the German plan specifically provides that the vessels would not trade with the US. The Germans also emphasize that foreign vessels carrying cargo into German ports would be obliged for some time to depart largely in ballast because of the scarcity of German exports, and would, therefore, not compete seriously with world shipping. Nevertheless, US approval of such a proposal would require Congressional action involving a reversal of the ban contained in the recent extension of the Ship Sales Act, by which chartering of US vessels to foreign interests is prohibited.

In any event, there are indications of a reawakening of German initiative in world trade and German interests, exploiting the opportunity presented them by US recognition of the importance of rehabilitating the German economy as an essential feature of the European Recovery Program, will undoubtedly make additional attempts to reconstitute the German merchant marine. There will be strong opposition to such efforts, however, from several quarters. The USSR has repeatedly cited the Potsdam Agreement as controlling the reconstruction of the German merchant marine and will undoubtedly continue to oppose its expansion. France, furthermore, while not a signatory to the Potsdam Agreement, will oppose all such measures through fear of a resurgent Germany.

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likewise, in spite of short-term advantages to the UK of greater German self-sufficiency, determined British opposition to expansion of the German merchant fleet can be expected from those shipping interests which have largely replaced the German coastal fleet in the German-UK trade as well as from many operators who are disturbed by the long-range implications of a revitalized German merchant marine. There are, moreover, strong elements in the UK which would oppose in principle any measures that can be interpreted as evasions of the Potsdam Agreement.

4. World merchant ship launchings, a major factor in the economic rehabilitation of many countries, declined slightly in the first quarter of 1948. Lloyd's Register of Shipping reports a decline of about 65,000 tons compared with the previous quarter, based on vessels being built in the leading maritime countries. No figures are reported, however, for the USSR. The Lloyd figures do not indicate an actual recession in ship construction. In fact, 15,000 tons more of construction was begun during the quarter than during the last quarter of 1947, and the trend in ship construction is still upward. The UK still holds the commanding position it has had during most of the post-war period. Of all construction now reported under way, the UK accounts for about 55 percent (US only 8 percent).

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